

SWITZERLAND

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	1/
<i>Income, Production and Employment:</i>				
Nominal GDP	296.6	255.5	266.3	
Real GDP Growth (pct) 2/	0.0	1.7	1.8	
GDP by Sector 2/				
Agriculture	N/A	N/A	N/A	
Manufacturing	N/A	N/A	N/A	
Services	N/A	N/A	N/A	
Government 3/	45.7	38.3	39.3	
Per Capita GDP (US\$)	36,400	34,700	37,200	
Labor Force (000s) 4/	3,041	2,996	3,121	
Unemployment Rate (pct)	3.9	4.2	3.3	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M3)	6.9	5.2	1.0	
Consumer Price Inflation (pct)	0.8	0.5	0.1	
Exchange Rate (SFr/US\$)	1.23	1.45	1.44	
<i>Balance of Payments and Trade:</i>				
Total Exports 5/	76.6	72.5	76.4	
Exports to U.S.	6.8	7.1	7.6	
Total Imports 5/	74.8	71.1	74.3	
Imports from U.S.	4.9	5	5.2	
Trade Balance 5/	1.8	1.4	2.1	
Balance with U.S.	1.9	2	2.5	
External Public Debt. 6/	71.9	66.9	75.4	
Fiscal Deficit/GDP (pct)	1.9	2.2	2.9	
Current Account Surplus/GDP (pct)	7.4	8.9	7.9	
Debt Service Payments/GDP (pct)	1.3	1.3	1.3	

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Gold and Foreign Exchange Reserves 7/	49.8	41.3	41.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ All 1998 figures are estimated.

2/ Estimates for 1997/8.

3/ Including social welfare expenditures.

4/ Full-time equivalent employment.

5/ Merchandise trade excluding gold and other precious metals, jewels, artworks antiques;

Source: Swiss Customs Administration; 1998 figures are estimates based on data available through August.

6/ Federal government only (i.e., excluding cantons and communities).

7/ As of 8/98.

1. General Policy Framework

Switzerland has a highly developed, internationally oriented, and open market. The economy is characterized by a sophisticated manufacturing sector, a highly skilled workforce, a large services sector and a high savings rate. Per capita GDP is virtually the highest in Europe while unemployment is practically the lowest.

When Swiss voters decided in December, 1992 to reject the European Economic Area (EEA) Treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, without being part of the EEA or a member of the EU. With over 60 percent of its exports going to Europe, the government is making major efforts to maintain its competitiveness in Europe while diversifying its export markets. The Swiss have recently concluded long-running bilateral negotiations with the EU Commission, covering seven different sectors. However, political level approval from the EU Council is still necessary.

After economic prosperity in the eighties, the Swiss economy was Western Europe's weakest between 1990-1996, with growth averaging around 0.0 percent per year (unemployment, however, did not rise above 5 percent). As a result of economic stagnation, Switzerland has run large, unprecedented deficits causing a corresponding increase in public debt. With the recently approved initiative which essentially requires the federal government to run balanced budgets, the government will have to reduce the deficit to less than one billion Swiss Francs in 2001 by strictly controlling expenditures. Modest economic recovery began in 1997 and annual GDP growth is expected to be in the 1.5 to 2.0 percent range for both 1998 and 1999.

No systematic use is made of fiscal policy to stimulate the economy. However, despite the tight budget situation, parliament voted in 1997 to spend \$379 million on an investment program to help the Swiss economy pull out recession. Most of the funds will be spent in the construction sector to renovate public infrastructure. Approximately \$41 million will be provided to maintain the apprenticeship program and \$14 million will be spent for the promotion of technology and innovation.

The Swiss National Bank (SNB) is independent from the Finance Ministry. The primary objective of the SNB's policy is price stability. Monetary policy is conducted through open market operations. The discount rate is used by the SNB only as a signal to the public.

2. Exchange Rate Policies

Since the latter years of the 1990-1996 economic stagnation, the SNB has sought to prevent further appreciation of the Swiss Franc by accelerating growth of the money supply.

The high franc had been seen as one of the main reasons for the weak performance of exports. Money supply growth slowed significantly during 1997, due in large part to the weakening of the franc. In the mid and long term, the SNB does not follow any exchange rate policy, and the Swiss Franc is not pegged to any foreign currency.

3. Structural Policies

Few structural policies have a significant effect on U. S. exports. One exception is telecommunications. In 1997, the Swiss Parliament decided to liberalize and privatize the Swiss telecommunications sector, opening a market to investment and competition from U.S. firms. This liberalization took effect on January 1, 1998 and since then, one U.S. firm (and its Swiss partner) has won a license to provide cellular phone service. The same firm will also be building a large land network with fiber optic cabling.

Agriculture is heavily regulated and supported by the federal government. Legislation passed this year will reduce direct government intervention in the market to set prices, but will continue the high level of support for Swiss agricultural production. The goal of the new legislation is to reduce government regulation of the market while continuing agricultural production at current levels through import protection and direct payments linked to environmental requirements. The new regulations will take effect January 1, 1999.

In early 1996, the new Cartel Law came into effect, introducing the presumption that horizontal agreements setting prices, production volume, or territorial distribution diminish effective competition and are therefore unlawful. Over time, the effect of this law should be to improve competition in the domestic economy. As part of its Uruguay Round commitments, Switzerland enacted legislation on January 1, 1996, providing for nondiscrimination and national treatment in public procurement at the federal level. A separate law makes less extensive guarantees at the cantonal and community levels.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland.

5. Significant Barriers to U.S. Exports

Import Licenses: Import licenses for many agricultural products are subject to tariff-rate quotas and tied to an obligation for importers to take a certain percentage of domestic production. Tariffs remain quite high for most agricultural products that are also produced in Switzerland.

Services Barriers: The Swiss services sector features no significant barriers to U.S. exports. Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch here. Foreign insurers may offer only those types of insurance for which they are licensed in their home countries. Until recently, the most serious barriers to U.S. exports existed in the area of telecommunications. However, with the privatization and liberalization which became effective in this sector on January 1, 1998, this market has been further opened to foreign competitors.

Standards, Testing, Labeling, and Certification: Swiss approval and labeling requirements for genetically modified food products and ingredients are among the strictest in the world. Swiss authorities blocked entry early in 1998 of a shipment of corn gluten meal because it contained meal from corn varieties not yet approved in Switzerland. Swiss authorities are currently reviewing the requirement that all food and feed products containing genetically modified ingredients be labeled. They have proposed modifying the requirements to require labeling only if the content is above a set percentage. Swiss officials have approved additional corn varieties for food and feed use in 1998, but the approval process continues to be slower than in the U.S. or the EU.

Investment Barriers: In most cases, foreign investment in Switzerland is granted national treatment. Some restrictions on foreign investment apply to the following areas: ownership of real estate by foreigners; aviation services; limits on the number of foreign workers; and restrictions concerning the number of foreign directors on the boards of corporations registered in Switzerland. For reasons of national security, foreign participation in the hydroelectric and nuclear power sectors, operation of oil pipelines, transportation of explosive materials, television and radio broadcasting, ownership of Swiss-based airlines, and maritime navigation, are restricted by law.

The board of directors of a joint stock company must consist of a majority of members permanently residing in Switzerland and having Swiss nationality.

Government Procurement Practices: On the federal level, Switzerland is a signatory of the WTO Government Procurement Agreement and fully complies with WTO rules concerning public procurement. On the cantonal and local levels, a law passed by the parliament in 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland reached agreement in 1996 on a text which expands the scope of public procurement access on a bilateral basis.

Customs Procedures: Customs procedures in Switzerland are straightforward and not burdensome. All countries are afforded WTO most-favored-nation treatment.

With the exception of certain restrictions on agricultural items, the Swiss market is essentially open for the import of U.S. merchandise.

6. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Switzerland is gradually reducing the export subsidies as required under World Trade Organization (WTO) rules. The government has negotiated, but not yet ratified, an agreement with the European Union that neither country will subsidize dairy product exports to the other.

7. Protection of U.S. Intellectual Property

Switzerland has one of the best regimes in the world for the protection of intellectual property, and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good. Since May of 1998 Switzerland has been in compliance with its obligation under TRIPS to protect company test data required by national authorities in order to obtain approval to market pharmaceuticals. The new regulation enacted by the Swiss Inter cantonal Office for the Control of Medicines mandates a 10-year protection period for such data. Prior to this regulation taking effect, the lack of protection in this area negatively impacted one U.S. company. However, it is now very unlikely that any further problems will arise for U.S. firms.

Patent protection is very broad, and Swiss law provides rights to inventors that are comparable to those available in the United States. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty (PCT), making it possible for inventors to file a single patent application in the United States (or other PCT country, or any member of the European Patent Convention, once it enters into force) and receive protection in Switzerland. If filed in Switzerland, a patent application must be made in one of the country's three official languages (German, French, Italian) and must be accompanied by detailed specifications and, if necessary, by technical drawings. The duration of a patent is 20 years. Renewal fees are payable annually on an ascending scale. Patents are not renewable beyond the original 20 year term, with the exception of pharmaceuticals, where the Swiss adopted a patent term restoration procedure in 1995.

According to the Swiss Patent Law of 1954, as amended, the following items cannot be covered by patent protection: methods for surgical or therapeutic treatment and for diagnosis applied to human or animal bodies; inventions, the exploitation of which would be contrary to

public order or morality. In addition, patents shall not be granted for new varieties of plants or animal breeds (except under certain limited circumstances), or for essentially biological processes for producing plants or breeding animals. However, microbiological processes and products obtained by such processes are patentable. In virtually all other areas, coverage is identical to that in the United States.

Trademarks are well protected. Switzerland recognizes well known trademarks and has established simple procedures to register and renew all marks. The initial period of protection is 20 years. Service marks also enjoy full protection. Trademark infringement is very rare in Switzerland -- street vendors are relatively scarce here, and even they tend to shy away from illegitimate or gray market products.

A new Copyright Law in 1993 improved a regime that was already quite good. The law explicitly recognizes computer software as a literary work and establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment. According to industry sources, software piracy continues to be a problem. This appears to be largely due to illegal copying by individuals and some small and medium-sized establishments. It is highly unlikely that there are any exports. Owners of television programming are fully protected and remunerated for rebroadcast and satellite retransmission of their works, and rights holders have exclusive rental rights. Collecting societies are well established. Infringement is considered a criminal offense. The term of protection is life plus 70 years.

The Swiss also protect layout designs of semiconductor integrated circuits, trade secrets, and industrial designs. Protection for integrated circuits and trade secrets is very similar to that available in the U.S., and protection for designs is somewhat broader.

Industry sources estimate lost sales due to software piracy at \$93 million in 1997 (out of a total market value of \$2 billion for software). Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

8. Worker Rights

a. The Right of Association: All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

b. The Right to Organize and Bargain Collectively: Swiss law gives workers the right to organize and bargain collectively and protects them from acts of antiunion discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and

employers has meant fewer than 10 strikes per year since 1975. There were no significant strikes in 1997.

c. Prohibition of Forced or Compulsory Labor: There is no forced or compulsory labor, although there is no legal prohibition of it.

d. Minimum Age for Employment of Children: The minimum age for employment of children is 15 years. Children over 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated.

e. Acceptable Conditions of Work: There is no national minimum wage. Industrial wages are negotiated during the collective bargaining process. Such wage agreements are also widely observed by non-union establishments. The Labor Act establishes a maximum 45-hour workweek for blue and white collar workers in industry, services, and retail trades, and a 50-hour workweek for all other workers. The law prescribes a rest period during the workweek. Overtime is limited by law to 260 hours annually for those working 45 hours per week and to 220 hours annually for those working 50 hours per week.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor. There were no allegations of worker rights abuses from domestic or foreign sources.

f. Rights in Sectors with U.S. Investments: Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,144
Total Manufacturing	3,723
Food & Kindred Products	196
Chemicals & Allied Products	1,454
Primary & Fabricated Metals	189
Industrial Machinery and Equipment	538
Electric & Electronic Equipment	490
Transportation Equipment	4
Other Manufacturing	853
Wholesale Trade	8,151
Banking	3,341
Finance/Insurance/Real Estate	16,786
Services	1,880
Other Industries	177
TOTAL ALL INDUSTRIES	35,203

Source: U.S. Department of Commerce, Bureau of Economic Analysis.